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Canada Southern Petroleum Ltd.

Annual Report, June 1964

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Securities Transferred in the United States of America by

The First National Bank of Jersey City

One Exchange Place, Jersey City, N. J. 07303

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Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd. should be addressed to the Company in care of The First National Bank of Jersey City, One Exchange Place, Jersey City, N. J. 07303.

PRESIDENT'S MESSAGE

To the Stockholders:

YOUR COMPANY is presently completing the tenth year of its participation in Canada's petroleum industry. A retrospective glance at our operations over the past decade reveals considerable progress and, more importantly, a sizable potential for the future.

When formed in 1954, Canada Southern had little in assets except the rights to 2,500,000 acres of exploratory acreage, of which 1,300,000 were in northeastern British Columbia.

Today, Canada Southern's holdings in Western Canada include over 1,475,000 acres which are being explored and developed largely at the risk of other companies. To date, the more than \$49 million spent in exploration and drilling on Canada Southern's extensive land spread has given the Company varying but substantial interests in five oil fields in northeastern British Columbia and fourteen gas fields in British Columbia, the Northwest Territories and the Yukon.

Accessibility to markets via completed gathering systems and new pipelines already under way or projected for the near future give assurance that production from Canada Southern's interest acreage will find increasing outlets to consumer markets both in Canada and the United States.

An inventory of your Company's accomplishments after ten years is both a record of steady progress and an augury of future growth at what promises to be an accelerated pace.

One of the areas which give promise of considerably expanded activity is Permit 1007 (CSP 45%) in the southeast corner of the Yukon Territory, the site of the Company's North Beaver River gas discovery. Completion tests, which were resumed in mid-summer following their suspension in April after detection of an unexplained rupture in both tubing and casing at a depth of 9,002 feet, were concluded in late October.

Because of a series of mechanical problems, adequate and satisfactory tests of the entire mid-Devonian carbonate section which was penetrated by this well could not be effectively conducted. However, at least this much has been learned. Starting at 12,160 feet, some 2,300 feet of this carbonate section were penetrated. On initial tests the bottom 1,000 feet were deemed to contain salt water. The 1,300-foot balance of the section had porosities ranging from good to poor. Various portions of this section yielded gas to the surface on tests. However, because of the mechanical difficulties referred to above, it was not possible to make thorough and accurate tests. The final tests in September did show, nevertheless, that a 30-foot section toward the top of the carbonate was capable of flowing gas at rates ranging up to 5 million cubic feet per day. This well is now a capped gas well.

Seismic operations are now under way to prepare for the drilling this winter of one or more additional wells on Permit 1007. It is further expected that gas from the North Beaver River well will be used to drill these follow-up wells. The economies of air drilling are by now well established; gas drilling, on the other hand, is proving to be even safer and more economical.

Apart from the Yukon drilling, which understandably has been a major center of attention throughout the year, considerable interest has focused on the Fort Nelson area. Activity here, which mounted steadily over the past year, is expected to be intensified

greatly this winter as a result of the completion by Westcoast Transmission Co., Ltd., of its 30-inch, 225-mile pipeline from Chetwynd to Fort Nelson, and its gas processing plant which is located partly on Canada Southern interest acreage.

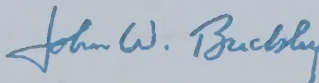
Completion of these facilities is certain to act as a spur to further the more rapid development of the gas fields of the Fort Nelson area, in which Canada Southern's properties consist of 529,395 gross acres, or 112,169 net acres.

In the body of this report will be found full details of your Company's participation in the work being done in the Fort Nelson, Highway, Boundary Lake, Peejay, and other areas.

A review of the year's operations and audited financial statements for the fiscal year ended June 30, 1964, will be found on the following pages of this report. To the extent that it is possible to announce the plans of the various operators of the Canada Southern holdings, this material indicates that the 1964-65 drilling period will witness intensive exploration and development efforts on this acreage, as well as on adjoining properties. The drilling of eight or more exploratory wells is expected on Canada Southern properties alone.

On behalf of the Board of Directors and officers, I wish to express our appreciation for the contributions of the operating staff to the progress of the past decade, as well as to that of the year just passed.

Respectfully submitted,



President

Calgary, Alberta
November 19, 1964

REVIEW OF OPERATIONS

YUKON TERRITORY

NORTH BEAVER RIVER

Stockholders will recall from the previous Interim Report that the drilling of the Company's North Beaver River well, located on Permit 1007 (CSP 45%) in the southeast corner of the Yukon Territory, was accompanied by many mechanical difficulties and costly delays, which, on April 10, 1964, resulted in suspension of the completion operations. In addition, the annual spring thaw, which occurred immediately following the suspension, meant that for an extended period neither the access road nor airstrip was usable, so that in the event of an emergency, no means of transportation was available for bringing in needed supplies.

Completion tests started on April 6 and three days later a 651-foot interval, from 12,207 to 12,858 feet, commenced to flow gas under light acid stimulus. The following day, as preparations were being made to fully acidize this interval, it was established that both tubing and casing had been ruptured at a depth of 9,002 feet.

As a consequence of this unexpected development, it was decided to suspend the well pending a re-evaluation of the situation. This assessment in turn resulted in a decision to resume completion tests.

At mid-summer, the balance of supplies needed to repair the ruptured tubing and casing at 9,002 feet was airlifted to the drill-site. Damage to the casing was repaired and tubing replaced. Due to junk iron in the hole resulting from milling operations, it became impractical to clear the hole and properly test other than the top 30 feet of indicated pay zone. This zone was acidized and flowed gas at rates up to 5 million cubic feet per day.

Meantime, Canada Southern has proposed that plans be made for the drilling, commencing this winter, of the first of a series of additional wells on Permit 1007, with operations contemplated to start as soon as the terrain becomes sufficiently frozen to move in the necessary supporting equipment for a continuous development and delineation program.

Plans are to use gas from the North Beaver River well to drill the follow-up wells. Air drilling has recently proved to be a very economical method of drilling in the immediate area, but gas drilling is deemed to be safer and even more economical. By the use of gas for future operations, the year-round drilling may possibly be carried out with drilling time reduced from an estimated 120 to 90 days at a cost saving of approximately \$750,000 for each well.

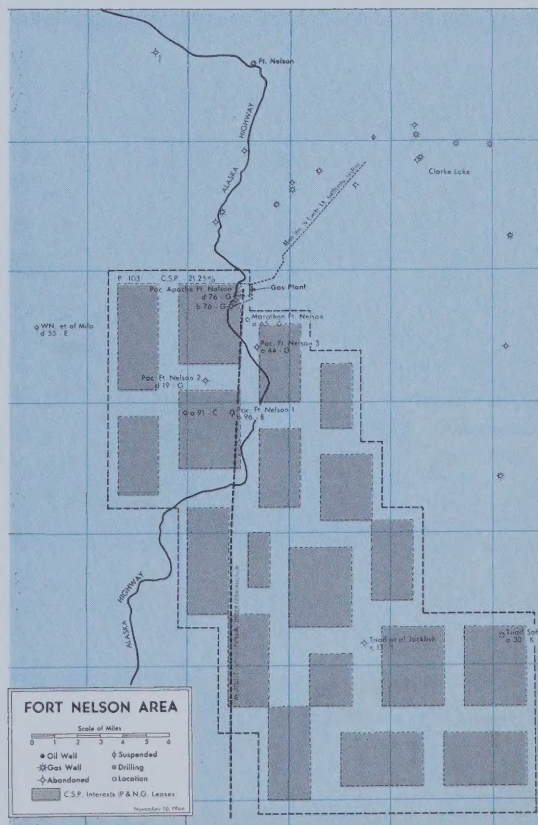
BRITISH COLUMBIA

FORT NELSON AREA

This area of northeastern British Columbia seems destined to experience a substantial upswing in drilling and exploration as a result of the construction by Westcoast Transmission Co., Ltd., of a \$60-million, 30-inch, 225-mile pipeline from Chetwynd to Fort Nelson, and a 200 million cubic feet per day capacity gas processing plant. The pipeline itself is due for completion by December of this year, and the processing plant has been completed. One of the first wells scheduled to go on production is Apache b-76-G (CSP 21.25%), which is viewed as an extension to the Clarke Lake field.

Now that a pipeline to market is imminent, it appears certain that this portion of the Clarke Lake field will be fully developed. One well was recently started offsetting the Company's property and an additional location on Canada Southern property is expected soon. The presence of the new pipeline and processing plant also is likely to spur activity around the Triad-Sohio-Pacific a-30-K Jackfish well, in which Canada Southern owns a 21.25 per cent interest, and which is located on the south portion of some 87,000 carried interest lease acres in former Permit 103. Your Company's stake in the Fort Nelson area, in which accelerated activity is expected, consists of 529,395 gross acres, or 112,169 net acres.

Although the project is based at this initial stage on growing gas demands in British Columbia itself, the long-range prospects envision substantial exports to U. S. markets as well. Present estimates indicate that U. S. Pacific Northwest markets are increasing 50-million cubic feet a day each year — while in northern California, consumption is growing annually at the rate of 100-million cubic feet per day.



HIGHWAY AREA

The drilling of an exploratory test well was begun this summer in the eastern quarter of former Permit 149, in which Canada Southern has a 50 per cent carried interest. The well, which is scheduled to test new and deeper horizons in the field, is a 12,500-foot Middle Devonian Elk Point test, and the drill-site is located in the Highway Field, three-fourths of a mile northeast of Highway No. 1, and five-eighths of a mile southeast of Highway No. 2 gas well. The well is presently drilling below 11,400 feet.

PEEJAY—NANCY AREA

The Pacific PJ d-85-H oil discovery well mentioned in the April, 1964, Interim Report is now one of 20 wells that are either completed or in the process of completion. The area has been given the new field name of Nancy. Five of these completed wells are located on Canada Southern's 27.75 per cent carried interest land. Because of Crown Sales of the corridor lands, information in general has been kept confidential on this development. At the sale on August 5, 1964, prices ranging up to \$1,016 an acre were paid for this corridor acreage. Development is proceeding with two rigs in operation and another four rigs are presently drilling step-out and exploratory wells in the area, two of which fall on Canada Southern's interest land. Although not all information is currently available, it can be said that production in this field comes from the Halfway sand formation at a depth of some 3,800 feet; there are up to 24 feet of net pay; and wells are capable of producing up to 500 barrels a day. The Peejay field proper has been unitized for a pressure maintenance program and is being produced on a field unit basis.



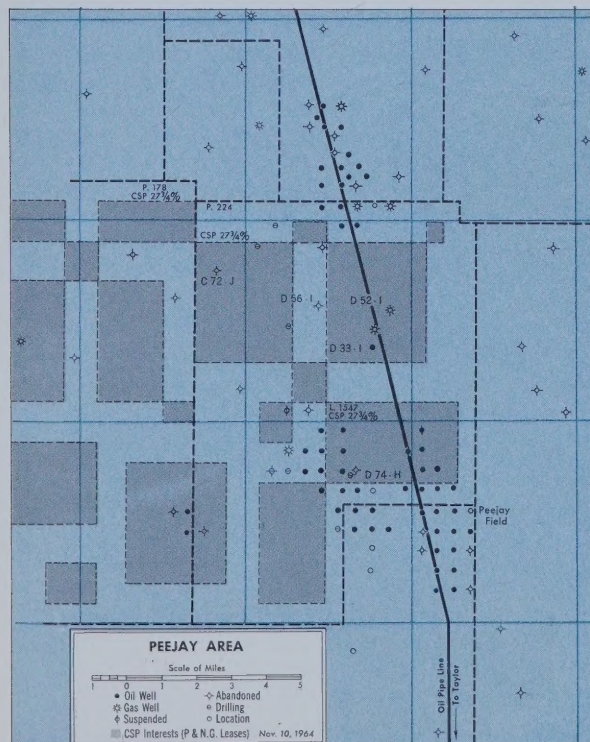
BOUNDARY LAKE

The south part of the Boundary Lake field has now been unitized and the unit, Boundary Lake Unit No. 1, is operated by Imperial Oil. An average of 8,500 barrels of oil per day was produced in the unit for the month of September, the latest month for which figures are available. The Boundary Lake Gas Plant commenced operations in July 1964. The waterflood program has been started and is proceeding satisfactorily. Engineering studies indicate that the waterflood will more than double the recoverable

reserves, while maintaining productivity of the wells at an efficient level. Your Company now has an interest in 95 oil wells in the Boundary Lake Field, which is considered at present to be fully developed.

SIPHON CREEK—PERMIT 100 AREA (CSP 21.25 %)

Texaco is presently drilling two exploratory wells just to the east of former Permit No. 100 (CSP 21.25%). These will test formations down to and including the Triassic.



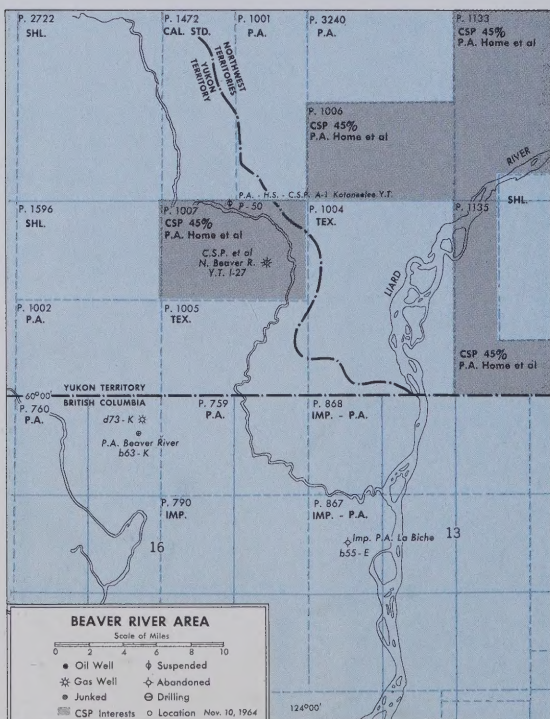
WEST BUICK CREEK—PERMIT 101 AREA (CSP 21.25 %)

The Altair W. Minerals Buick No. b-22-C well located on unitized lands in which Canada Southern has a 10.625 per cent interest is currently waiting on completion after flowing gas at a maximum rate of 2,500,000 cubic feet per day on a drillstem test of the Buick Creek sand. The well is located between the West Buick Creek and Buick Creek Fields on a half section from Canada Southern interest gas lease No. 467 and a half section of Altair rights which

were unitized to form a spacing unit for the well.

ARCTIC ISLANDS

Two dry holes were drilled during the past year in areas not affecting Canada Southern lands. The next wells, planned for the fall of 1965, are expected to be drilled in the vicinity of Canada Southern's holdings. As reflected in the accompanying acreage summary, Canada Southern has dropped some of the more inaccessible and least prospective holdings and has retained what it considers the most promising acreage.



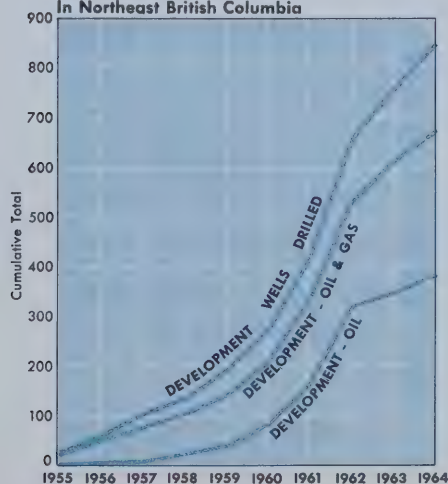
MARKETS AND OUTLETS

It was announced on November 4 that Trans-Canada Pipe Lines Ltd. had filed an application with the appropriate Canadian and U. S. authorities for permission to build a \$200-million natural gas transmission system through three mid-western states from Emerson, Manitoba, to Sarnia, Ontario. This system will have a capacity of 800-million cubic feet per day and, if permission is granted, is to be completed by the end of 1966. Recent information would indicate that if Alberta gas reserves are deemed insufficient to meet these contemplated requirements, the gathering system would have to be extended into northeastern British Columbia to tap reserves from that province. This Trans-Canada announcement assures a further intensification of exploration and development drilling in northeastern British Columbia, the Yukon, and the Northwest Territories; and, concurrently, this development promises an accelerated access to market of increased production of reserves anticipated from these areas.

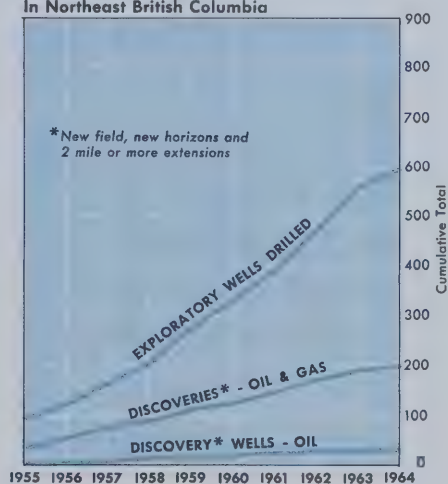
WELLS CAPABLE OF PRODUCTION AS AT OCTOBER 31, 1964

| <u>Field</u> | <u>CSP Interest %</u> | <u>Number of Productive Wells</u> | |
|--------------------|-------------------------------|---|------------|
| | | <u>Oil</u> | <u>Gas</u> |
| Boundary Lake .. | 7.5 | 92 | — |
| Boundary Lake .. | 13.75 | 3 | 4 |
| Celibeta | 45.00 | — | 1 |
| Dede | 27.75 | — | 1 |
| Doe | 13.75 | — | 1 |
| Ekwan | 21.25 | — | 1 |
| Ft. Nelson | 21.25 | — | 2 |
| Jackfish | 21.25 | — | 1 |
| Highway | 50.00 | — | 4 |
| Nancy | 27.75 | 5 | — |
| North Beaver River | 45.00 | — | 1 |
| Peejay | 27.75 | 6 | 2 |
| Peejay West | 27.75 | 2 | — |
| Siphon Creek ... | 21.25 | — | 1 |
| Town | 50.00 | — | 1 |
| Wargen | 21.25 | — | 1 |
| West Buick Creek | 21.25 | 2 | 12 |
| West Buick Creek | 10.625 | — | 1 |
| Total | | 110 | 34 |

**Development Drilling
In Northeast British Columbia**



**Exploratory Drilling
In Northeast British Columbia**



NET PRODUCTION

Oil (Bbls.)

| <i>Field/Interest</i> | <u>1957</u> | <u>1958</u> | <u>1959</u> | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Boundary Lake, 7.5% | — | — | — | — | — | — | 153,133 |
| Boundary Lake, 13.75% .. | 5,656 | 23,131 | 53,189 | 39,731 | 28,323 | 286,089 | 64,046* |
| Buick Creek, 21.25% | 655 | 3,036 | — | — | — | — | — |
| Peejay, 27.75% | — | — | — | 226 | 279 | 14,584 | 20,829 |
| West Peejay, 27.75% | — | — | — | — | — | 2,475 | 3,582 |
| TOTAL | 6,311 | 26,167 | 53,189 | 39,957 | 28,602 | 303,148 | 241,590 |

Gas (Mcf)

| | | | | | | | |
|--------------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|
| West Buick Crk., 21.25% | 134,035 | 1,894,183 | 2,590,893 | 2,960,826 | 2,341,828 | 1,865,132 | 856,071* |
| Highway, 50% | — | 348,610 | 1,267,356 | 642,628 | 406,540 | 220,960 | 159,189 |
| Boundary Lake, 13.75% .. | — | — | — | 33,560 | 314,138 | 276,208 | 255,182 |
| TOTAL | 134,035 | 2,242,793 | 3,858,249 | 3,637,014 | 3,062,506 | 2,362,300 | 1,270,442 |

Oil (Bbls.)

| <i>Field/Interest</i> | <u>1964</u> | | | | | | | | <i>Totals 1957 Through August 1964</i> |
|---------------------------|----------------|-----------------|--------------|--------------|------------|-------------|-------------|---------------|--|
| | <u>January</u> | <u>February</u> | <u>March</u> | <u>April</u> | <u>May</u> | <u>June</u> | <u>July</u> | <u>August</u> | |
| Boundary Lake, 7.5% | 14,222 | 12,879 | 13,278 | 12,667 | 13,412 | 11,499 | 11,808 | 12,073 | 254,971 |
| Boundary Lake, 13.75% .. | 533 | 458 | 532 | 423 | 363 | 469 | 106 | 76 | 503,125 |
| Buick Creek, 21.25% | — | — | — | — | — | — | — | — | 3,691 |
| Nancy, 27.75% | — | — | — | — | 685 | 755 | 1,663 | 1,689 | 4,792 |
| Peejay, 27.75% | 876 | 894 | 896 | 3,241 | 5,051 | 4,857 | 4,950 | 4,918 | 61,601 |
| West Peejay, 27.75% | 121 | — | — | — | — | — | — | — | 6,178 |
| TOTAL | 15,752 | 14,231 | 14,706 | 16,331 | 19,511 | 17,580 | 18,527 | 18,756 | 834,358 |

Gas (Mcf)

| | | | | | | | | | |
|--------------------------|---------|---------|---------|---------|---------|--------|--------|--------|------------|
| West Buick Crk., 21.25% | 109,998 | 96,364 | 108,187 | 96,340 | 98,809 | 42,774 | 62,473 | 45,902 | 13,303,815 |
| Highway, 50% | 24,875 | 942 | — | — | — | — | — | 2,983 | 3,074,083 |
| Boundary Lake, 13.75% .. | 16,625 | 16,897 | 19,933 | 18,858 | 18,910 | 17,109 | — | 8,658 | 996,078 |
| TOTAL | 151,498 | 114,203 | 128,120 | 115,198 | 117,719 | 59,883 | 62,473 | 57,543 | 17,373,976 |

* Reflects sale of 6¼% interest in Boundary Lake field in March 1963.

NET EXPENDITURES THROUGH JUNE 30, 1964 **ON LANDS WHILE IN CARRIED INTEREST POSITION**

Under Phillips Agreement (Pacific Petroleum Ltd.)

| <u>Block</u> | <u>Permit or Lease</u> | <u>Carrying Charges and Exploratory Surveys</u> | <u>Drilling and Gathering</u> | <u>Total Expenditures</u> | <u>Net Proceeds of Production</u> | <u>Net Expenditures</u> | <u>Net to Canada Southern Petroleum Ltd. to Revert to W. I. position by Blocks</u> |
|--------------|--|---|---------------------------------------|-------------------------------|---|-----------------------------|--|
| A | Ex. Ps. 267 & 268 P&NG Leases | \$ 382,148 | \$ 850,455 | \$ 1,232,603 | \$ — | \$ 1,232,603 | \$ 342,047 |
| B | Ex. Ps. 262, 234, 266, 245-248 P&NG Leases | 954,264 | — | 954,264 | — | 954,264 | 264,808 |
| C | Ex. P. 149 P&NG Leases & N.G. Lease | 610,047 | 3,473,659 | 4,083,706 | 251,630 | 3,832,076 | 1,916,038 |
| D | Ex. P. 212 P&NG Leases | 127,001 | — | 127,001 | — | 127,001 | 63,501 |
| E | Ex. P. 158 P&NG Leases | 177,815 | 287,133 | 464,948 | — | 464,948 | 232,474 |
| F | Ex. P. 178 P&NG Leases | 141,781 | 676,557 | 818,338 | 12,998 | 805,340 | 223,604 |
| G | Ex. P. 224 P&NG Leases | 112,298 | 1,034,211 | 1,146,509 | 265,374 | 881,135 | 245,440 |
| | | <u>\$2,505,354</u> | <u>\$ 6,322,015</u> | <u>\$ 8,827,369</u> | <u>\$ 530,002</u> | <u>\$ 8,297,367</u> | |
| H to O | Re-assigned to Canada Southern | <u>1,422,028</u> | <u>1,501,053</u> | <u>2,923,081</u> | <u>—</u> | <u>2,923,081</u> | |
| | | <u>\$3,927,382</u> | <u>\$ 7,823,068</u> | <u>\$11,750,450</u> | <u>\$ 530,002</u> | <u>\$11,220,448</u> | |

Under Pacific Agreement

| | | | | | | | |
|-----------|---|--------------------|---------------------|---------------------|--------------------|---------------------|--------------|
| Albercan | Ex. Ps. 100-105, 116 P&NG Leases | \$2,492,584 | \$ 7,012,201 | \$ 9,504,785 | \$3,446,020 | \$ 6,058,765 | \$1,277,433* |
| Act | Ex. Ps. 38, 85, 86, 89, 90, 91 and 98 P&NG Leases & N.G. Leases | <u>2,556,210</u> | <u>7,801,346</u> | <u>10,357,556</u> | <u>2,883,102</u> | <u>7,474,454</u> | |
| | | <u>\$5,048,794</u> | <u>\$14,813,547</u> | <u>\$19,862,341</u> | <u>\$6,329,122</u> | <u>\$13,533,219</u> | |

Note: Expenditures on Act Lands
as of Conversion Date

* Including the Company's share of interest held by Act Oils Ltd.

Under Home Signal Agreement (Estimated)

| | | | | | | |
|----------------|------------|------------|--------------|--------------|------|--------------|
| Liard Basin | 29 Permits | \$ 594,000 | \$ 4,937,249 | \$ 5,531,249 | \$ — | \$ 5,531,249 |
|----------------|------------|------------|--------------|--------------|------|--------------|

| | | | | | |
|--|--------------------|---------------------|---------------------|--------------------|---------------------|
| Grand Total of Expenditures under above agreements by other com- panies on Canada Southern Petroleum holdings (Carried in- terest and free work) | <u>\$9,570,176</u> | <u>\$27,573,864</u> | <u>\$37,144,040</u> | <u>\$6,859,124</u> | <u>\$30,284,916</u> |
|--|--------------------|---------------------|---------------------|--------------------|---------------------|

P&NG Leases — Petroleum & Natural Gas Leases

N.G. Leases — Natural Gas Leases.

BRITISH COLUMBIA**Fort Nelson Area**

| <u>Permits/Ex. Permits</u> | <u>Gross Acreage</u> | <u>CSP Interest %</u> | <u>Net Acreage</u> | <u>Operator</u> |
|----------------------------|--------------------------|---------------------------|------------------------|-------------------------|
| 85, 89 & 91 | 129,690 | 13.75 | 17,832 | Pacific Petroleum Ltd. |
| 103 & 104 | 127,490 | 21.25 | 27,091 | Pacific Petroleum Ltd. |
| 86 | 35,951 | 13.75 | 4,943 | Sinclair Canada Oil Co. |
| 105 & 116 | 50,162 | 21.25 | 10,660 | Sinclair Canada Oil Co. |
| 234, 245-248, 262, 266-268 | 186,102 | 27.75 | 51,643 | Pacific Petroleum |
| TOTAL | 529,395 | | 112,169 | |

Buick Creek-Peejay Area

| | | | | |
|--------------------|----------------|-------|---------------|------------------------|
| 101 & 102 | 92,029 | 21.25 | 19,556 | Imperial-Pacific |
| 158 | 25,124 | 50.00 | 12,562 | Pacific Petroleum Ltd. |
| 178 & 224 | 54,277 | 27.75 | 15,063 | Pacific Petroleum Ltd. |
| TOTAL | 171,430 | | 47,181 | |

Blueberry-Highway Area

| | | | | |
|--------------------|----------------|-------|---------------|-------------------------|
| 149 & 212 | 77,332 | 50.00 | 38,666 | Pacific Petroleum Ltd. |
| 238 | 30,530 | 1.50 | 458 | Sinclair Canada Oil Co. |
| TOTAL | 107,862 | | 39,124 | |

Fort St. John-Boundary Lake Area

| | | | | |
|--------------------|----------------|-------|---------------|-----------------------------|
| 38 (Ptn.) | 654 | 6.875 | 45 | Dome Petroleum Ltd. |
| 38 & 98 (Ptn.) | 110,707 | 13.75 | 15,222 | Imperial, Pacific, Sinclair |
| 98 (Ptn.) | 18,606 | 7.50 | 1,395 | Imperial Oil Limited |
| 100 | 75,560 | 21.25 | 16,056 | Imperial, Pacific, Sinclair |
| 135 | 101,861 | 1.67 | 1,701 | Imperial-Pacific |
| D.R. 53 | 3,890 | 25.00 | 972 | Sinclair Canada Oil Co. |
| D.R. 70 | 2,282 | 12.50 | 285 | Dome Petroleum Ltd. |
| TOTAL | 313,560 | | 35,676 | |

Dawson-Murray River Area

| | | | | |
|--------------------|----------------|--------|---------------|-----------------|
| 431 | 14,639 | 100.00 | 14,639 | Canada Southern |
| 269 & 271 | 99,402 | 67.50 | 67,096 | Canada Southern |
| 272 | 5,156 | 24.00 | 1,237 | Canadian Delhi |
| 273 | 9,762 | 25.00 | 2,440 | Canadian Delhi |
| TOTAL | 128,959 | | 85,412 | |

* A detailed map of Canada Southern's property interests in British Columbia, the Yukon, and the Northwest Territories is available to stockholders upon request to the Company, 505 - 8th Avenue S. W., Calgary, Alberta, Canada.

(As of October 31, 1964)

NORTHWEST TERRITORIES AND YUKON

Liard Basin

| <u>Permits/Ex. Permits</u> | <u>Gross Acreage</u> | <u>CSP Interest %</u> | <u>Net Acreage</u> | <u>Operator</u> |
|---|--------------------------|---------------------------|------------------------|-----------------|
| 1525, S½-1137 & S½-2301 | 94,856 | 90.00 | 85,371 | Canada Southern |
| 1006, 1007, N½-1137, N½-2301, 1132-1136, 1149-1157, 1173-1181, 2302 & 2713 | 1,224,050 | 45.00 | 550,824 | |
| 3378 | 58,980 | 75.00 | 44,235 | Canada Southern |
| 3301-3307 | 341,692 | 100.00 | 341,692 | Canada Southern |
| TOTAL | 1,719,578 | | 1,022,122 | |

Fort Good Hope Area

| | | | | |
|--------------|----------------|-------|----------------|-----------------|
| 2111-2113 | 152,838 | 87.50 | 133,734 | Canada Southern |
| TOTAL | 152,838 | | 133,734 | |

Arctic Islands Area

| | | | | |
|--|------------------|--------|--------------------|--------------------|
| A-76 to A-79, A-95, A-109, A-111, A-114 to A-119, E½ A-120, A-121 to A-125, A-127 to A-129, S½ A-130, A-131 to A-136, E½ A-137, A-138, A-140, A-142 to A-154, A-157 to A-162, E½ A-163, A-164 to A-168, N½ A-169, A-170, A-175 to A-182, N½ A-209, N½ A-210, W½ A-214, A-221, A-223, A-226, A-227 | 3,687,097.5 | 33½ | 1,229,032.5 | Canada Southern |
| N½ A-885 & N½ A-886 | 57,210 | 40.00 | 22,884 | Canada Southern |
| A-921 to A-938, A-950, A-951, A-966 & A-967 | 709,135 | 100.00 | 709,135 | Canada Southern |
| A-978 & A-979 | 62,650 | 87.50 | 54,819 | Canada Southern |
| S½ A-708, SE¼ A-709, N½ A-713, & NE¼ A-714 | 100,735.5 | 5.00 | 5,037 | Dome Petroleum Ltd |
| TOTAL | 4,616,828 | | 2,020,907.5 | |

Recapitulation (Totals)

| | | |
|---|------------------|--------------------|
| BRITISH COLUMBIA | 1,251,206 | 319,562 |
| NORTHWEST TERRITORIES & ARCTIC ISLANDS | 6,489,244 | 3,176,763.5 |
| ALBERTA | 1,792 | 1,792 |
| GRAND TOTAL | 7,742,242 | 3,498,117.5 |

CANADA SOUTHERN PETROLEUM LTD. (*a Canadian corporation*)

CONSOLIDATED BALANCE SHEET

Assets and Deferred Expenditures

Current assets:

| | |
|--|----------------|
| Cash | \$ 21,776 |
| Accounts receivable | 87,034 |
| Refundable deposits and prepaid expenses | 77,903 |
| Total current assets | <u>186,713</u> |

Investments and other assets:

| | | |
|---|----------------|--------------------|
| Act Oils Limited, 50% of capital stock, at cost | \$350,000 | |
| United Canso Oil & Gas Ltd., 70,083 shares of capital stock, at cost (market value \$146,796) | 123,236 | |
| Trans-Border Holdings Ltd., 50% of capital stock, at cost (\$112,000) and advances (\$5,248) | 117,248 | |
| Other | <u>5,080</u> | 595,564 |
| Oil and gas permits, leases and interests including lease rentals, geological expenses and dry hole costs | | 4,606,211 |
| Other exploratory expenses and general and administrative expenses deferred .. | | 3,113,751 |
| Well in progress, at cost | | 986,160 |
| Land, building and equipment, at cost | 347,310 | |
| Less accumulated depreciation | <u>182,316</u> | <u>164,994</u> |
| | | <u>\$9,653,393</u> |

The accompanying notes are an integral part of this consolidated balance sheet.

SHEET (Expressed in Canadian dollars) June 30, 1964

Liabilities and Capital

Current liabilities:

| | |
|--|----------------|
| Demand bank loan payable, guaranteed by Act Oils Limited | \$ 550,000 |
| Accounts payable and accrued liabilities | 93,517 |
| Current portion of mortgage payable | 12,900 |
| Total current liabilities | <u>656,417</u> |

| | |
|--|---------|
| 7% mortgage payable, maturing February 1, 1974 (secured by land and building), less portion included above | 156,963 |
|--|---------|

Capital:

Capital stock, par value \$1 per share:

Authorized — 8,000,000 shares

Issued — 6,247,306 shares \$ 6,247,306

Capital in excess of par value (no change during year) 9,034,582

15,281,888

Deductions from capital:

Losses on abandonments or sales of interests (\$908,678 in the year ended June 30, 1964) and on former operations in the United States

9,924,156

Profits on sales of certain interests in prior years (3,482,281)

6,441,875

8,840,013

Contingent liability and commitments (Notes 2 and 3)

\$9,653,393

By and on behalf of the Board of Directors

M. A. REASONER, *Director*

ROLAND J. RICHARDSON, *Director*

CANADA SOUTHERN PETROLEUM LTD.

Year ended June 30, 1964

Consolidated Statement of Oil and Gas Permits, Leases and Interests

| | |
|--|--|
| Costs of oil and gas permits, leases and interests acquired | |
| Portion of predecessor's investment in former subsidiary (represented principally by value assigned to capital stock issued) over net assets received in liquidation as shown by books of subsidiary | |
| Excess of cost of investment in present subsidiary over equity in net assets at acquisition | |
| Cost of standing well assigned under Phillips agreement in 1956 | |
| Lease rentals | |
| Geological and geophysical expenses | |
| Dry hole costs | |

Consolidated Statement of Other Exploratory Expenses and General and Administrative Expenses

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954

Expenses of the Company since April 20, 1954:

| | |
|--|--|
| Salaries and employee benefits | |
| Financial, technical and other services | |
| Legal services | |
| Auditing services | |
| Stockholders' reports and capital stock expenses | |
| Travel | |
| Building maintenance and rent | |
| Depreciation | |
| Miscellaneous expenses | |
| Interest and exchange | |
| Intangible drilling costs, lease operating costs and royalties | |

Less income received:

| | |
|---|--|
| Oil and gas sales | |
| Technical and administrative services rendered: | |
| Act Oils Limited (including \$42,375 applicable to a prior year) | |
| Other | |
| Rents and other income | |
| Payments received from Phillips Petroleum Company on assigned property less refund .. | |

Total before abandonments and sales

Less portion of above expenses considered allocable to areas abandoned or sold

The accompanying notes are an integral part of these statements.

| <i>Balance June 30, 1963</i> | <i>Additions</i> | <i>Abandonments and sales</i> | <i>Balance June 30, 1964</i> |
|----------------------------------|------------------|-----------------------------------|----------------------------------|
| \$1,894,836 | \$ 14,035 | \$242,539 | \$1,666,332 |
| 1,121,738 | | | 1,121,738 |
| 83,984 | | | 83,984 |
| 412,479 | | | 412,479 |
| 604,494 | 28,165 | 179,062 | 453,597 |
| 801,166 | 105,012 | 172,809 | 733,369 |
| 293,767 | 2,073 | 161,128 | 134,712 |
| <u>\$5,212,464</u> | <u>\$149,285</u> | <u>\$755,538</u> | <u>\$4,606,211</u> |

ferred

| | | | |
|--------------------|------------------|------------------|--------------------|
| \$1,956,162 | | | \$1,956,162 |
| 1,225,159 | \$161,289 | | 1,386,448 |
| 960,872 | 164,956 | | 1,125,828 |
| 534,139 | 71,474 | | 605,613 |
| 69,976 | 8,409 | | 78,385 |
| 466,052 | 75,404 | | 541,456 |
| 102,909 | 9,570 | | 112,479 |
| 321,837 | 43,942 | | 365,779 |
| 252,995 | 15,570 | | 268,565 |
| 513,040 | 48,265 | | 561,305 |
| 194,183 | 14,913 | | 209,096 |
| 285,213 | 5,638 | | 290,851 |
| <u>6,882,537</u> | <u>619,430</u> | | <u>7,501,967</u> |
| 579,810 | 13,732 | | 593,542 |
| | 98,873 | | 98,873 |
| | 14,000 | | 14,000 |
| 580,266 | 37,056 | | 617,322 |
| 37,425 | | | 37,425 |
| <u>1,197,501</u> | <u>163,661</u> | | <u>1,361,162</u> |
| 5,685,036 | 455,769 | | 6,140,805 |
| 2,873,914 | | \$153,140 | 3,027,054 |
| <u>\$2,811,122</u> | <u>\$455,769</u> | <u>\$153,140</u> | <u>\$3,113,751</u> |

CANADA SOUTHERN PETROLEUM LTD.

Notes to Financial Statements June 30, 1964

1. Basis of financial statements

The properties of the Company and its consolidated subsidiary, Rampart Petroleum Ltd., are in an exploratory or development stage, and accordingly all expenditures (less income) of these companies have been capitalized or deferred except that costs and expenses applicable or considered allocable to areas abandoned and other losses, net of profits on sales of certain interests, have been deducted from capital.

Since the properties and property rights owned by the Company and its subsidiary are in an exploratory or development stage, realization of the amounts represented by oil and gas permits, leases and interests and other exploratory expenses and general and administrative expenses deferred is dependent upon future developments.

2. Investment in Act Oils Limited

The principal assets of Act Oils Limited are a 15% working interest in approximately 350,000 gross acres and a 5% carried (net profits) interest in approximately 345,000 gross acres, both in petroleum and natural gas permits and leases in British Columbia.

The Company's investment in Act Oils exceeded by \$104,080 the applicable equity in net assets as shown by the balance sheet of Act Oils at June 30, 1964. Neither the carrying value nor the equity in net assets is purported to represent the present value of the investment in Act Oils. The bank loans of Act Oils are guaranteed by the Company and United Canso Oil & Gas Ltd.

The financial statements of Act Oils Limited at June 30, 1964 are set forth below:

ACT OILS LIMITED Balance Sheet — June 30, 1964 (Expressed in Canadian dollars)

| ASSETS | | | |
|---|----------------|----|--------------------|
| Current assets: | | | |
| Cash | | \$ | 89,678 |
| Accounts receivable | | | 27,779 |
| Prepaid expenses | | | 993 |
| Total current assets | | | <u>118,450</u> |
| Property and equipment, at cost: | | | |
| Oil and gas property interests: | | | |
| Producing (less depletion \$102,261) | \$336,411 | | |
| Nonproducing | 366,318 | | |
| Well costs and gathering systems: | | | |
| Producing (less depreciation and amortization \$162,034) | 754,703 | | |
| Standing (not presently producing) | <u>28,644</u> | | <u>1,486,076</u> |
| | | | <u>\$1,604,526</u> |
| LIABILITIES AND CAPITAL | | | |
| Current liabilities: | | | |
| Accounts payable: | | | |
| Shareholders | | \$ | 34,205 |
| Other | | | 120,981 |
| Current portion of notes payable to bank | | | <u>298,560</u> |
| Total current liabilities | | | <u>453,746</u> |
| 5¾% notes payable to bank in monthly installments (secured by producing properties and assignment of certain accounts receivable), less portion included in current liabilities | | | 658,940 |
| Capital: | | | |
| Capital stock, no par value: | | | |
| Authorized—100,000 shares; issued—6 shares | \$ | 6 | |
| Capital surplus (no change during year) | 176,139 | | |
| Retained earnings | <u>315,695</u> | | <u>491,840</u> |
| Contingent liability—guarantee of Canada Southern Petroleum Ltd. bank loan | | | |
| | | | <u>\$1,604,526</u> |

CANADA SOUTHERN PETROLEUM LTD.

Notes to Financial Statements June 30, 1964 (Continued)

2. Investment in Act Oils Limited (Continued)

STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended June 30, 1964

| | | |
|--|-----------|------------------|
| Crude oil and gas sales | | \$631,480 |
| Costs and expenses, exclusive of amounts deducted below: | | |
| Technical and administrative services provided by shareholders | \$100,000 | |
| Lease operating expense | 80,260 | |
| Lease rentals | 34,934 | |
| Geological and geophysical | 26,378 | |
| Interest | 59,331 | |
| Other | 11,045 | 311,948 |
| Operating income before items shown below | | 319,532 |
| Depletion, depreciation and amortization | 145,919 | |
| Abandonments and dry holes | 41,415 | 187,334 |
| Net income | | 132,198 |
| Special item — technical and administrative services provided by shareholders applicable to a prior year | | 74,998 |
| Net income less special item | | 57,200 |
| Retained earnings June 30, 1963 | | 258,495 |
| Retained earnings June 30, 1964 | | <u>\$315,695</u> |

A provision for income tax is not required as Act Oils has a loss carry-forward available for future years, which arose principally from the deductibility of expenditures carried in the balance sheet as part of property.

3. Properties and related exploratory and other expenses

The Company's principal property interests are located in British Columbia, the Northwest and Yukon Territories and Arctic Islands.

At June 30, 1964, most of the acreage located in British Columbia was covered by agreements with Pacific Petroleum Ltd. Under these agreements the Company holds certain working interests and carried (net profits) interests. The carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a net profits interest to a working interest by paying its share of the expenditures not recouped by profits from production. Through June 30, 1964 Pacific Petroleum has reported expenditures of \$14,309,000 (increased \$420,000 since June 30, 1963) of which \$4,414,000 is attributable to the Company's interests.

At June 30, 1964, the Company held a 45% working interest in approximately 1,224,000 gross acres in the Northwest and Yukon Territories. The Company's 45% share of a well in progress on a permit in this area amounted to \$986,160 at June 30, 1964, an increase of \$566,144 since June 30, 1963. Previously, a group of oil companies expended \$3,000,000 in a pre-

scribed drilling program on this acreage in partial fulfillment of an obligation incurred in 1959 with their purchase of a portion of the Company's original interest in the acreage.

Lease rentals, work requirements and deposits anticipated by the Company with respect to its property interests for the year ending June 30, 1965 aggregate \$341,000. This amount includes \$44,960 of lease rentals on reassigned acreage on which rentals are technically in default. Such amount will not be paid if this acreage is abandoned.

No provision for amortization of the amount carried for oil and gas permits, leases and interests or the expenses related thereto is included in the financial statements. Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives.

4. Capital stock option

At June 30, 1964, options granted in July 1959 to The Catawba Corporation to purchase 150,000 shares at \$6.00 (market price \$4.07) per share were outstanding and exercisable. These options expire August 31, 1966. An additional 23,000 shares are reserved for granting of future options.

On September 4, 1963, options to purchase 8,000 shares, immediately exercisable, were granted to two employees. The option price was \$6.00 per share, an aggregate of \$48,000. The quoted market price at date of grant was \$3.94 per share, an aggregate of \$31,520.

On June 30, 1964, options as to 84,000 shares granted in 1959 and the options as to 8,000 shares granted on September 4, 1963 expired.

5. Officers' compensation and The Catawba Corporation

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of officers and contributions to a pension plan in their behalf allocated to the Company amounted to \$43,701 and \$5,248, respectively, for the year ended June 30, 1964.

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services represent charges from The Catawba Corporation. The Company's contract with Catawba, expiring August 31, 1966, provides for payments based on services rendered. The contract also grants a $\frac{1}{64}$ th overriding royalty on all properties acquired by the Company from April 20, 1959 to the expiration date of this contract.

Certain officers and directors of the Company, who do not receive salaries directly from the Company, are stockholders of or associated with The Catawba Corporation.

AUDITORS' REPORT

The Board of Directors and Shareholders
CANADA SOUTHERN PETROLEUM LTD.

We have examined the accompanying consolidated balance sheet of Canada Southern Petroleum Ltd. and subsidiary at June 30, 1964 and the related consolidated statements of oil and gas permits, leases and interests and of other exploratory expenses and general and administrative expenses deferred for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have obtained all the information and explanations we have required.

In our opinion, subject to such adjustment as would result from failure to recover in the future the amounts at which oil and gas permits, leases and interests and other exploratory expenses and general and administrative expenses deferred are carried in the balance sheet (see Note 1), and according to the best of our information and explanations given to us and as shown by the books of the companies, the statements named above are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canada Southern Petroleum Ltd. and subsidiary at June 30, 1964 and the changes for the year then ended in oil and gas permits, leases and interests and in other exploratory expenses and general and administrative expenses deferred, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG, CLARKSON, GORDON & Co.

New York, N. Y.
September 14, 1964

